Fiscal Crisis in Europe or a Crisis of Distribution?
A transitional program for an alternative Europe

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1. Introduction

We are in a new episode of the global crisis: the struggle to distribute the costs of the crisis. This crisis has been an outcome of increased exploitation and inequality, since the late 1980s across the globe. Neoliberalism tried to solve the crisis of the golden age of capitalism via a major attack on labour. The outcome was a dramatic decline in labour's bargaining power and labour's share in income globally in the period since the 1980s. However, the decline in the labour share has been the source of a *potential realization crisis* for the system –one of the major sources of crisis in capitalism according to Marxian economics. The decline in the purchasing power of workers limited their potential to consume. Demand deficiency and financial deregulation reduced investments despite increasing profitability. Thus neoliberalism simply replaced the profit squeeze and over-accumulation crisis of the 1970s with the realization problem. Financialisation and debt-led consumption seemed to offer a short-term solution to this potential realization crisis. Since the summer of 2007 this solution has also collapsed. The crisis was tamed via major banking rescue packages and fiscal stimuli. Now the financial speculators and corporations are re-labelling the crisis as a "sovereign debt crisis" and pressurizing the governments in diverse countries ranging from Greece to Britain to cut spending to avoid taxes on their profits and wealth. The pressure on wages associated with budget cuts is great news for the corporations! However the push for public debt reduction is the biggest threat to recovery.

The realization crisis at the origin of the crisis based on wage suppression was deeply connected to global imbalances. In the European context, the wage suppression strategy and current account surpluses of Germany in particular created imbalances within Europe in the form of current account deficits, public or private debt in the periphery of the Eurozone, in particular in Greece, Portugal, Spain, and Ireland or in Eastern Europe, in particular in Hungary, the Baltic States, Romania, and Bulgaria. The crisis laid bare the historical divergences within Europe, and led to a European crisis and a new stage in the global crisis. The limited policy framework, which is based on strict inflation targeting, and which lacks a common fiscal policy has failed to generate convergence within the EU in the first place. In countries of the periphery like Greece where both public debt and the budget deficit to GDP ratio are high and are coupled with a high current account deficit, the attack of the speculators asking for dramatically higher yields has brought the country to the edge of a sovereign debt crisis in 2010. Indeed before Greece, in 2009 Hungary, the Baltic States, and Romania were under attack. It looked as if the euro saved Slovakia and Slovenia from the turbulence in the currency markets, but their problem will be a permanent loss of international competitiveness as is unfortunately illustrated by the problems of the periphery of the Eurozone. Initially Eastern Europe was seen the only problem zone in Europe. However, together with Greece, the attention of the speculators turned to the public debt and deficits in Portugal, Spain, Ireland, and then towards the core to Italy, Britain and Belgium.

The governments agreeing to the cuts are avoiding taxing the beneficiaries of neoliberal policies and the main creators of the crisis. The public debt would not be there, if it were not for the bank rescue packages, counter-cyclical fiscal stimuli, and the loss of tax revenues during the crisis. Finally, the crisis would not have happened without the major pro-capital redistribution and financialisation. Thus this is a crisis of distribution and a reversal of inequality at the expense of labour is the only real solution, which in turn needs to connect the demands for equality with an agenda for change beyond capitalism.

This chapter focuses on the crisis in Western Europe as another chapter in this book by Catherine Samary analyses the situation in Eastern Europe. The rest of the chapter is structured as follows: Section two analyses the main pillars of neoliberalism and the road to the global crisis. Section three discusses the crisis in Western Europe in both the core and the periphery. Section four outlines the costs of the crisis. Section five concludes with a transitional program for an alternative Europe.

2. The crisis of the neoliberal era of capitalism

Neoliberal economic policies have been the answer of the capitalists to the crisis of the 1970s. Since the 1980s, the world economy has been guided by deregulation in labour, goods and financial markets at the domestic and international level. Since the 1990s, the transformation of the Soviet Union and Eastern Europe opened up new markets for consumption and a wide global reserve army of cheap labour and relieved the pressure on the welfare states of the West to maintain a certain living standard for the working masses. This has led to a decline in labour's bargaining power, and in the share of labour in national income since the early 1980s in not only the major capitalist economies but also the developing economies of Latin America, Asia, as well as Eastern Europe, who have all shared similar neoliberal policy guidelines. The increase in globalization, in particular the mobility of capital, and the stagnation in aggregate demand and rise in unemployment have been the central factors behind this pro-capital redistribution of income. Furthermore as a result of the very high wages of the CEOs and other top managerial income earners, the share of high income groups in total labour income has increased dramatically at the expense of the rest of the wage earners in the last two decades. Thanks to increased rates of exploitation, profit rates had already recovered by the late 1990s or early 2000s in the US and in most EU countries back to the levels of the early 1970s (Figure 1). The profit rate has indeed recovered not only in the aggregate economy but also in the non-financial sector as well as in manufacturing, albeit at a lower degree in the latter due to intensive intra-capitalist competition. The recovery in the profit rate has been combined with both the decline in the wage share, i.e. higher rates of exploitation, and a lower investment rate out of profits in both the EU countries and the US.

Figure 1

Here lie the two important long term contradictions of the neoliberal era of capitalism. Firstly, the neoliberal era has generated higher profits for multinational firms, and especially for the financial sector. However, the high financial returns have replaced profits from real activity in many cases. As the finance dominated regime rose, the investment behaviour of firms was significantly affected by the rising shareholder value orientation. Lazonick and O'Sullivan (2000) argue that a shift in management behaviour from 'retain and reinvest' to 'downsize and distribute' has occurred. Financial market-oriented remuneration schemes based on short-term profitability increased the orientation of management towards shareholders' objectives. The unregulated financial markets and the pressure of financial market investors have created a bias in favour of asset purchases as opposed to asset creation. At the same time most of the effort of macroeconomic policy makers has been going to policies to retain the confidence of volatile financial markets. Markets have been deregulated mainly to support the interests of the rentier-capitalists. The same process has limited the demands of workers. In a way, the loss in labour's share has prevented the profits in the real sector from being eroded by increased interest payments. Consequently the relationship between profits and investment has changed; thus higher profits do not automatically lead to higher investment. The share of dividends and interest payments in profits increased substantially in the last two decades; thus retained profits for investment declined. In spite of higher profit rates and a boom-euphoric business environment, not only in the USA, but also in the major advanced capitalist economies (Germany, France and the UK), as well as some developing countries (e.g. Latin America, Turkey), economic growth rates have been well below their historical trends. In a deregulated financial environment, it would be irrational for the capitalists to give up the short term high profit options in financial speculation and engage in long term irreversible and uncertain physical investment. At this point it has to be emphasized that the reference point for the capitalists since the 1980s was not the profit rates of the early 1960s in manufacturing, which might be higher than currently, but was the high return offered by short-term financial assets. Thus, it is unconvincing to see this crisis as an outcome of a long-term declining trend in the profit rates due to an unavoidable rise in the organic composition of capital (as suggested by Choonara, 2009; Harman, 2009; Kliman, 2009) or increased international competition (as suggested by Brenner 2009).

Secondly the decline in the labour share has been a potential source of realization crisis for the system. Profits can only be realized, if there is sufficient effective demand for the goods and services. But the decline in the purchasing power of labour has a negative effect on consumption, given that the marginal propensity to consume out of profits is lower than that out of wages. This affects investments negatively, when they are already under the pressure of share holder value orientation.

Exactly at this point the financial innovations seemed to have offered a short-term solution to the crisis of neoliberalism in the 1990s: debt-led consumption growth. It is important to note that without the unequal income distribution the debt-led growth model would not have been necessary or possible. Particularly in the US, but also in UK, Ireland or even some continental European countries like Netherlands and Denmark household debt increased dramatically in the last decade. The increase in housing loans and house prices fuelled each other; then the increased housing wealth thanks to the housing bubble served as collateral for further credit, and fuelled consumption and growth and maintained high profit rates. This phase, despite growth rates lower than in the 1960s, deserves to be named as a new expansionary long wave with the peculiarity of profits without investment and growth without jobs and with an increased financial fragility. Financialisation leads to a debt-led growth by fuelling consumption in the short-run, but debt has to be serviced in the future. Because of high debt levels, the fragility of the economy to the possible shocks in the credit market also increases.

The deregulation in the financial markets and the consequent innovations in mortgage backed securities, collateralized debt obligations and credit default swaps facilitated the debt-led growth model. These innovations and the “originate and distribute” model of banking have multiplied the amount of the credit that the banks could extend given the limits of their capital. The premiums earned by the bankers, the commissions of the banks, the high CEO incomes thanks to high bank profits, the commissions of the rating agencies all created a perverse mechanism of investments that led to short-termism and ignorance about the risks of this banking model. In the short-run in the sub-prime credit segment, even if the risk of default were known, this was not perceived as a major issue: first, most of these credits were anyway sold to other investors in the form of mortgage backed securities with high ratings. Second, when there is a credit default, the houses, which serve as collateral, could be taken over and as long as the house prices kept increasing this was a profitable business for the creditor. However this approach to banking led to a very risky economic model and a time bomb, which was destined to explode eventually. The bad news from the sub-prime markets triggered the explosion eventually, and first the market for CDOs and then the interbank market, and finally the whole credit market collapsed at a global scale.

It is interesting to ask, why it took so long for the time bomb to explode. The reason is the endogenous evolution of expectations: as the debt-led growth model produced high short-term growth and profits, optimism was stimulated via a self-fulfilling prophecy, and risks were more and more underestimated even by those who were more conservative at the beginning. In a world of coerced competition (Crotty, 1993) even those who see the risks are forced to take risky positions, if they are to keep their jobs as dealers, bankers, or CEOs, since the burst of the bubble is a matter of time, and it can take longer than the short-term evaluation of the profits by the share holders, who fail to value more secure investment behaviour. Just a couple of weeks before the big collapse in July 2007, the ex-CEO of Citibank, Chuck Prince, had said “when the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you’ve got to get up and dance” (Elliott, 2007). When the shock came, credit crunch and the collapse of the debt-led growth model was inevitable.

A more important explanation is the distributional aspect behind this risky model: the prevention of the crisis required the solution of the distributional problems behind the debt-led growth model, i.e. redistribution of income and wealth; however the powerful global elite, who have influence over global policy making through their nation states would not agree with this solution. Therefore the policy institutes hoped for a “soft-lending” that would correct the bubbles without effectively touching the distributional conflict.

3 From wage suppression to sovereign debt crisis in Europe

The mirror image of the debt-led consumption model was global imbalances and export-led growth strategy: the debt-led consumption model created a current account deficit in the US that exceeded 6% of the GDP. This deficit was financed by the surpluses of some other developed countries like Germany and Japan, developing countries like China and South Korea, and the oil rich Middle Eastern countries. In Germany and Japan the current account surpluses and the consequent capital outflows to the US were made possible by wage moderation, which has suppressed domestic consumption and fuelled exports. Thus this is again an outcome of the crisis of distribution. On the side of the developing countries like China and South Korea, the experience of the Asian and Latin American crises stimulated a policy of accumulation of foreign reserves as a bail-out guarantee against speculative capital outflows. Here the international dimension of inequality plays an important role: these countries, threatened by the free mobility and volatility of short term international financial flows, invested their current account surpluses in US government bonds instead of stimulating their domestic development plans. Similar imbalances took place within Europe between the surplus countries in the core and the periphery of Europe. The wage suppression strategy and current account surpluses of Germany were matched by current account deficits, public or private debt in countries like Britain and Italy in the core as well as Greece, Portugal, Spain, and Ireland in the periphery of the Eurozone or in Eastern Europe.

At the root of the problem of these divergences within Europe is the neoliberal model that turned the periphery of Europe into markets for the core countries without any prospect of catching up. The lack of a sufficiently large European budget and significant fiscal transfers targeting productive investments in the periphery led to persistent differentials in productivity. Stability and Growth Pact as well as EU competition regulations limited the area for manoeuvre for the implementation of national industrial policy. In the absence of industrial policy and productive investments to boost productivity, and unable to devalue, the strategy of competitiveness was based mainly on wage moderation, and increased deregulation and precarisation in the labour markets, which further eroded labour’s bargaining power throughout the EU. In Ireland the integration to the core took the form of attracting Foreign Direct Investment based on low wages; and consequently despite productivity booms in the 1990s, real wage increases remained much lower than productivity increases until the 2000s. Overall labour’s share in income declined sharply in that period (see Figure 2).

Figure 2

The decline in the wage share does not reflect the full dimensions of increase in inequality in some countries. In both Ireland and Britain, the share of top 1% in total income (before tax) increased dramatically from the post-war low levels of 6-8% respectively to 10-13% as of 2000 (Atkinson and Piketty, 2007). While this is very similar to the trends in the US, in the other continental European countries, such a rise in top incomes did not take place or has been at a much more modest rate as in the case of Germany. Part of this increase is related to the hike in managerial wages, which makes the fall in the wage share look more modest than it is in reality for the majority of the wage earners.

However, wage moderation also did not save the countries in the periphery of the Eurozone, like Greece, Portugal, Ireland, Spain, since Germany was engaged in a much more aggressive wage and labour market policy: in the 1990s and 2000s productivity increases exceeded changes in real wages in all Western EU countries (except Portugal), with the gap being largest in Germany and Ireland (see Table 1). In Germany and Spain real wages even declined in the 2000s. Thus the gap between wages and productivity in Germany in the 2000s was due to real wage decline, and not necessarily high productivity. Moreover, in the periphery nominal labour costs have increased faster than in Germany due to a higher rate of inflation.

Table 1

The low investments despite a high profit share explain the stagnant productivity and low rates of GDP growth in Germany. The German case is also in striking contrast to France, where the gap between real wage and productivity growth is the smallest. France did not have Germany's export boom, but domestic demand and employment growth has been much stronger.

With weak domestic demand due to low wages, exports were the main source of growth in Germany, but this has been detrimental for the exports of the peripheral countries due to both loss of competitiveness and the contraction of domestic demand in Germany. Indeed Germany is like the China of Europe with a large current account surplus, high savings and low domestic demand. This neo-mercantilist policy has also been a model for some other countries like Austria and the Netherlands. In Spain, Greece, and Portugal consumption led by private debt has filled in the gap that low exports and high imports have created. In Ireland the effects of the core-periphery relationship have manifested themselves differently: Ireland has had a trade surplus but a current account deficit due to massive repatriation of profits by the Multinational Enterprises. A construction boom, real estate bubbles, and private debt have been a typical feature particularly in Spain and Ireland in maintaining growth and consumption in an era when wage share was falling.[1] In Greece and to a lesser extent Portugal a fiscal deficit also played a compensating role along with the debt of households and corporations. This is the background of the divergences between the periphery and the core in Europe, which has led to serious sovereign debt problems in the periphery.

There have been significant differences in the effects of the crisis in different European countries due to these divergences, which already existed prior to the crisis. In the core, Britain had a deep recession due to dependence on the financial sector, its own overextended banks, over-indebted private sector, and housing bubble, and GDP contracted by 6.4% peak to trough (between the first quarter of 2008 and the third quarter of 2009), and the recession has lasted longer than in Germany and France. The exposure of the domestic banks to the toxic assets in the US financial markets has been one of the earliest transmission mechanisms of the crisis to the other core European countries like Germany and France. Germany did not have a household debt problem, but has particularly suffered from the curse of its neo-mercantilist strategy of export based growth via wage dumping, as export markets shrank. From peak to trough (from 2008.Q1 to 2009.Q1) German GDP declined by 6.6%, while French GDP contracted by just 3.9% in the same period. Contrary to Germany, in France a better developed system of automatic stabilizers, a larger state sector and a better position in terms of income inequality made the conditions of the crisis more moderate at the onset, since the weakening of international demand was less important (Fitoussi and Saraceno, 2010).

[1] In Ireland the wage share has recovered slightly during 2002-2007 from 46.6% to 50.1%; it nevertheless remained lower than its peak level of 71.2% in 1975.

In the periphery of Europe, Ireland, with its disproportionately large banking sector and the bust of its housing bubble has had the deepest recession. The contraction in Ireland's GDP has reached 14.3% from peak to trough (between 2007.Q4 and 2009.Q4). The recession also hit Spain hard with the collapse of the housing bubble and the consequent contraction in construction, and GDP has contracted by 4.9% from peak to trough (from 2008.Q1 to 2009.Q4). Most importantly the imbalances between the core and periphery of Europe, and the limited fiscal capacity of the periphery to tame the crisis evolved into a sovereign debt crisis in Greece followed by Ireland, Portugal, and Spain in 2010. As of the second quarter of 2010 (the latest available data), the recession in Greece was still deepening, and the economy has contracted by 5.7% compared to the peak in 2008.Q3. Ireland, Greece, and Spain are expected to end 2010 in a recession. The length of the recession has also been longer (7-8 quarters as of 2010.Q2) than in the core countries.

Following speculations about Greece's default and exit from the Euro, the Eurozone governments' first decision came at the end of March 2010 after months of hesitation and worries about Germany's constitutional court, who could rule out any bailout as being against the EU treaties. As part of a package involving substantial IMF financing and a majority of European financing via coordinated bi-lateral loans, Euro area member states declared their readiness to support Greece subject to strong conditionality based on an assessment by the European Commission and the ECB and at a penalty interest rate. In April 2010, as the IMF and the Eurozone technocrats were bargaining over the conditions of the credit, the interest rate of two-year Greek government bonds increased to 19%; the cost of the Credit Default Swaps (CDS) for the Greek bonds was hiked as speculation about default spread; and Greek bonds were downgraded to junk status. The contagion started to threaten Spain and Portugal, whose bonds were also downgraded slightly; in Ireland the interest rates on bonds increased and eyes turned to the sovereign debt problem in the core countries like Italy, Belgium, Britain, and even the US. Worries also rose about the solvency of the private banks holding government bonds. Under pressure the initial amount of €30 billion turned out to be the first part of a larger 3-year bailout package of €110 billion. EU unveiled later in May a further surprise package of €500 billion to be supported by a €250 billion IMF facility to defend all Eurozone countries. The Eurozone governments are indeed protecting their own banks that are holding Greek bonds against a default; the bulk of the Greek bonds are held by German and French banks.

Germany, backed by the Netherlands, Austria, and Finland, all current account surplus countries, initially resisted the €750 billion package. Axel Weber, the Bundesbank president, did not hide his critique of the ECB's new decision. The package was pushed by France and the deficit countries like Spain, Italy, Portugal, and most importantly by the external intervention of the US with the fear of a second "Lehman Brothers" turning point in the global economy. Interestingly the information about Sarkozy's threat to leave the Euro to stop Merkel's block was leaked to the press by the Spanish Prime Minister Zapatero's colleagues. Barroso, the head of the European Commission, is also pushing for moving the monetary union in the direction of a fiscal union. Life for Germany's ruling elite is not easy: Merkel's party lost in a local state election amid the Greek crisis. Her liberal coalition partner (the FDP) complains that transfers to imprudent Eurozone members have a higher priority than tax cuts. The social democrats (the SPD) oppose the fact that banks are again being bailed out. The German technocracy is expressing its fears about fiscal federalism and the euro turning into a French Euro; the German media is spreading fears of inflation. However, one thing is clear: the Eurozone's ruling elite is committed to defending the Euro in ways which may also involve a creditor-led debt restructuring in order to avoid a possible debtor-led default. Obviously the plan here is to manage the orderly future repayment of debt via an acceptable hair cut for the creditors while still imposing austerity policies on working people.

Outside the Eurozone, Britain is also troubled: it tried to stay out of the large defence scheme; however this proved to be premature after the attacks on the bond markets of Ireland. As a result of the involvement of the Banks in Britain in the Irish banking industry, British tax payers in Britain will finance up to £10 billion of the rescue package as a result of the government's attempts to bailout the Banks in Britain. This is in striking contrast to the cuts in spending in Britain. Financial regulation is another issue that Britain tries to resist to protect the City of London.

At the beginning of the crisis the ECB acted merely as a lender of last resort to the private European Banks, and did not fulfil the same function in the case of the Eurozone governments during the initial phase of the sovereign debt crisis, and remained loyal to the neoliberal policy framework of the EU treaties, which did not allow it to buy the government bonds of the Member States (MS). Even when countries of the periphery faced excessively high interest rates and borrowing hardships, the ECB statute was preserved; thus the function of lender of last resort to the governments was not permitted. This course was abandoned only in May 2010 when the markets speculated fiercely about a default in Greece. In 2007-10, unlike the US or Britain, Eurozone governments had to finance their rescue plans in financial markets, which raised the costs of the rescue packages. Ironically the ECB's quantitative easing policy helped the banks to acquire cheap funding for their operations. From 2007 summer to October 2008 European banks shifted their lending towards the peripheral countries in the Eurozone, assuming that the toxic assets in those countries' banks were limited (Lapavitsas et al, 2010). Government bonds with higher yields in the periphery were also seen as an attractive and safe alternative. Even more ironically, it was the same banks that later fled to US government bonds, and cut lending to the periphery in 2009 as they became more risk averse. These same banks were not only bailed out by the ECB, but also the macroeconomic environment in which they are operating was supported by expansionary fiscal policy to prevent the recession turning into a great depression. Eventually the rescue packages, fiscal expansion, and the decline in tax revenues due to the recession led to a significant increase in the budget deficit. Now it is again the same banks who are asking for high risk premiums from the governments with high budget deficits and public debt. They are asking for cuts in spending, in particular in public wages and employment, and threatening to stop lending to the governments who fail to do so.

Only after the market pressures on sovereign debt increased to unsustainable levels, the ECB announced in March 2010 that it would continue to accept from the banks bonds with ratings as low as triple-B-minus as collateral; later it even accepted the Greek bonds after they were downgraded to Junk status. Finally in May under the pressure of banks and the European Commission, the ECB made a U-turn and launched a programme of buying up the bonds of the peripheral Eurozone countries from the banks.

4 Who pays the costs?

In the following, we will discuss the costs of the crisis and their distributional effects under two headings: public finance and labour market outcomes, i.e. wages and employment.

4.1 Public finance

The most obvious cost of the crisis has been the increase in public debt and budget deficits. The increase in budget deficits would not be there, if it were not for the bank rescue packages, counter-cyclical fiscal stimuli to tame the crises, increases in social protection spending due to the rise in unemployment, and the loss of tax revenues during the crisis. The crucial question is then who will carry the burden of the debt either in the form of increases in taxes or decreases in public spending. Thus the question of distribution of the costs becomes a question of changes in the composition of taxes and spending.

Table 2a shows the budget deficit/GDP during 2006-2010 in selected countries. In all countries there is a significant increase after the crisis, but most notably in both Spain and Ireland as well as in Germany the budget surplus of 2007 turned into a deficit. In Ireland the change has been the most dramatic. Ireland's major problem has been the guarantees of the government for the whole debt of the banks. As the housing bubble bust and international funding became scarce, the banks engaged in leveraged property lending found themselves in the edge of bankruptcy and the state had to support the capital of the banks beyond initial expectations. This will hike the budget deficit of the government to 32.4% of GDP as of 2010. The crisis had already led to an initial budget deficit of 7.3% of GDP in 2008 and 14.3% in 2009. Faced with the new needs to support its leveraged banking sector with a disproportionate size relative to the size of its small economy, Ireland had to accept a bailout package of €85 billion from the IMF and EU.

Table 2a and b

Table 2b shows the ratio of public debt to GDP. Again debt/GDP ratios were modest in all cases except Greece until the crisis. Between 2007 and 2010, the cost of the crisis has been an increase in public debt by 10.8% in Germany, 19.2% in France, and 33.4% in Britain. In the periphery the cost has ranged between 20.0% in Portugal to 35.2% in Greece and the most dramatic increase is by 72.4% in Ireland. Britain in the core and Ireland in the periphery stand out with the highest increases in public debt due to their overextended banking sector.

This is the background of the financial crisis, which is now being repackaged as a public debt crisis by the governments. How the governments will change the composition of their tax revenues and spending in order to deal with the debt problem is the next question in terms of the distribution of the costs of the crisis. Even before the austerity measures most of the tax burden fell on labour income, or consumption –a regressive type of taxation. The two categories together make up 68.4% (in Britain) to 81.6% (in Germany) of total tax revenues in 2007 according the latest data available. Austerity measures, which will be discussed in more detail below, will lead to further shifts in this direction due to increases in VAT. Perversely some countries like Britain and Greece are decreasing corporate tax rates along with increases in the VAT, which will increase the share of labour taxes in financing the costs of the crisis further.

Regarding the changes in the composition of public spending, the planned cuts aim at a tightening of the conditions of unemployment benefits or freezes in benefits. Yet if these measures result in a deepening of the recession, despite a worsening in the conditions of the unemployed, the total unemployment benefit payments or other welfare spending may paradoxically increase. Another change we will observe in the medium run will be a fall in state pension payments along with cuts/freezes in pensions and increases in the retirement age. In general we can expect a shift in the composition of spending from public goods, which benefit labour, towards spending, which favours capital, i.e. the mobile factor of production, as countries try to compete in attracting firms during a global recession given the current state of the political balance of power relations between labour and capital. In addition to social protection spending, expenditures in education, health, culture, and recreation fall under this category of public goods that will be the targets of cuts or privatization efforts.

The most dramatic indicator of the distribution of the costs of the crisis is the details of the austerity measures announced so far in the selected countries. Ireland, until recently, had been the role model pointed out by the EU politicians for Greece in spring 2010, as it had already smashed public sector wages between 5-15%, cut social welfare spending and other spending in order to decrease its budget deficit to 10% in 2011 and 2.9% in 2014. These brutal spending cuts and the detrimental pro-cyclical fiscal policy in Ireland had been praised, since they had at the time restored market confidence without aid from the EU. However, now as the new problems with the banking sector have emerged, the government has further committed itself to a new round of austerity policies (Burke, 2010): real spending on education and health will fall by 7.5% and 12.5% respectively. Expenditure on other programmes will drop by 27.5%. The social welfare budget will be cut between 5-10%. There will possibly be public sector job cuts despite the former consensus between the unions and the government (McDonald, 2010). The minimum wage will be cut by 12%. In the meantime, Ireland is resisting any increase in its record low corporate tax rate of 12.5%.

The list of measures implemented in Greece are similar: Greece committed to cut its budget deficit from 13.5% of GDP in 2009 to 3% in 2013 via dramatic cuts in spending, public sector employment and wages and pensions, an increase in the retirement age, cuts in unemployment benefits, tax hikes in indirect taxes and reduction in corporate taxes, along with a fight against tax evasion. Public sector wages are to be cut by 20-30%, and frozen for three years; only one out of five retired employees in the public sector is to be replaced (Lapavitsas et al, 2010). There are also efforts to increase the use of temporary labour contracts. Finally a large privatisation programme is planned for public land, ports, airports, railways, finance, energy and utilities (Lapavitsas et al, 2010).

Portugal and Spain have also committed to austerity packages with higher taxes on consumption, decreases in social spending and pensions, and freezes/cuts in wages and employment in the public sector. Spain has cut public sector wages by 5% and passed a new labour code to increase labour market flexibility.

In the core of Europe, Britain is leading austerity policies. The aim is to cut the budget deficit, which is 11.4% of GDP in 2009 and 11.8% in 2010, to 1.1% of GDP by 2015-16. Dramatic cuts in the welfare budget and the tightening of the conditions of eligibility for the job seekers allowance, cuts in most government expenditures including higher education and housing, pay freezes in the public sector and planned restructuring in public sector pension schemes are supposed to make up three quarters of the decrease in the deficit. Only one quarter of the decrease in the deficit is via increases in taxes. The government has increased VAT in 2011 while it is decreasing the corporate tax rate from 28% to 24% by 2014 starting from 2011. There is a levy of 0.04% on bank balance sheets in 2011; however the decline in corporate tax rates will possibly more than offset this levy. No new levy is introduced on bank bonuses or profits. Capital gains tax has been increased slightly and the income tax threshold for personal allowances raised to £7475. Overall the measures will reduce the income of lower income households more than that of higher income households (Emmerson, 2010).

Although the deficit in Britain is one of the highest in the EU, the average maturity of the debt is 13.7 years, the interest rate is at a historical low, and the ratio of debt to GDP is 68.2% in 2009 and 77.8% in 2010 despite the significant increase after the crisis. Public sector cuts at this stage will turn stagnation into a double dip recession. The talk about a fiscal crisis looks more like an excuse of the business lobbies to avoid tax increases to finance the budget deficit, and make the wage earners pay the costs of the crisis through cuts in income, jobs, and social services, to create a situation of "national emergency" to smash the remaining power of the trade unions, particularly in the public sector, and to decrease the size of the public sector. This situation shows a striking resemblance to the motivations of the Thatcher government as described by Sir Alan Budd - a monetarist economist and a Treasury civil servant in the 1970s, chief economic adviser to the Treasury during 1991-1997- in an interview in 1990: "many in the Thatcher government never believed for a moment that [monetarism] was the correct way to bring down inflation. They did however see that this would be a very good way to raise unemployment. And raising unemployment was an extremely desirable way of reducing the strength of the working classes... What was engineered - in Marxist terms - was a crisis of capitalism which re-created the reserve army of labour, and has allowed the capitalist to make high profits ever since" (cited in Cohen, 2003).[2] If we replace "monetarism" by "tight fiscal policy" and "inflation" by "public debt/budget deficit", this can fit well the discourse of the current government of Britain.

[2] The author is grateful to Robert Wade for the reference in his presentation at the Global Labour Conference in Berlin, October 15-16, 2010.

In the other core countries of Europe budget deficits have also increased, but not as dramatically as in the periphery or in Britain. However, there is still talk of tight fiscal policy. France and Germany have just increased the retirement age. Another major problem in the core will be the costs of the bailout packages for the periphery.

The speculators also now worry that these measures are not a solution to the problems: first they think that the default of Greece or other countries in the periphery may be inevitable given the popular resistance, the size of the debt and the recession. Second, in a contradictory way, they are also worried that austerity measures will deepen the recession in not only Greece or Ireland but also core countries like Britain, and create a double dip in the global economy, decrease tax revenues, and make it even harder to pay the debt back. They are right; there is a major inconsistency in this austerity plan: as the recession becomes deeper, tax revenues will become lower and despite severe cuts, budget deficits do not improve as much as planned as can already be seen. The estimates of IMF indicate that if Greece reduces its budget deficit to 2.6% of GDP by 2014, its GDP will contract so much that its debt to GDP ratio will rise above 150%. The latest developments in Ireland are also very telling: despite being the poster boy of austerity measures at the beginning of 2010, in less than one year the banking crisis put Ireland once again under focus; the austerity plans are now creating the conditions of a deepening recession in both Greece and Ireland, and it is unclear how the austerity plans will rescue the public or private sectors from insolvency. Finally, the worries about private debt, which may make further rescue packages necessary, are growing.

A long global recession seems very likely without the support of strong and coordinated fiscal stimuli. The uncertainty about the strength of the recovery is making new investments as well as hirings less likely. Declines in income and confidence, job losses and the pressure to pay back debt are restraining household consumption. Both investment and consumption will not return back to normal even when the banks relax credit. The presumed positive effect of a reduced budget deficit on private investment is based on the argument that lower government borrowing leads to lower interest rates and higher private investment and spending. Under the current conditions where consumers and firms are trying to reduce their debt and interest rates are already low, this channel has no relevance. Instead higher spending in public investment in the right areas, like renewable energy, infrastructure, housing, education, care, could crowd in private investment and consumption as well as help to meet the long term targets of sustainability and full employment.

4.2 Wages and employment

These conditions are turning the public debt crisis into a jobs crisis. Table 3 shows the cumulative change in GDP, employment, and hours worked (all seasonally adjusted) from the peak to trough of each variable as well as the second quarter of 2010 (the latest data available in the OECD National Accounts) compared to the peak. In Germany, France, Britain, and Portugal employment started falling one to three quarters after GDP. The fall in employment has lasted longer than that in GDP in all countries except Germany, and although the fall has stopped in the core countries, it is still going on in the periphery. In Germany after the initial job losses, employment has recovered, and the overall decline in employment is just 0.1% in 2010.Q2 compared to the peak. France has also had a modest fall in employment of 1.7% in 2010 compared to the peak. These outcomes in France and in particular in Germany are related to the adjustment of hours worked due to the short working time arrangements supported by government subsidies (Leschke and Watt, 2010). Hours worked started to decrease earlier and have fallen more than employment in Germany and France. Interestingly in Ireland, Spain, and Portugal the reverse is true: hours have decreased more than employment from the peak to 2010 second quarter. This can be explained by the lack of fiscal capacity to support short time work arrangements. In all countries except Portugal there has been a rise in part-time employment. Unfortunately there is no data for hours worked for Britain and Greece.

Table 3

In Germany, France, Britain, and Greece the fall in employment in cumulative (as of 2010.Q2 compared to the peak) has been less than the fall in GDP (compared to its own peak); however the reverse is true for Spain, Portugal, and Ireland. The higher share of temporary contracts in Spain and Portugal (31.7% and 22.4% as of 2007 compared to 14.4%-14.6% in France and Germany), the concentration of the crisis in the construction sector in Spain and Ireland, and the lack of short time working arrangements have contributed to this fact. Britain did not have a government subsidized short working time arrangement; however voluntary unpaid leaves, wage freezes, or nominal wage cuts have led to a less severe fall in employment compared to the fall in GDP.

As a result in Germany short working time arrangements have significantly moderated the rise in the unemployment rate, which has increased by a mere 0.5%-point at its peak in 2009.Q2 compared to 2008.Q4 (see Figure 3). The unemployment rate in Germany is now even lower than its pre-crisis level. However it is yet to be seen what will happen to unemployment in Germany when the short working time arrangements are eventually terminated and the export-led recovery loses steam as the advanced economies stagnate. The termination of short working time arrangements may spread the problem of unemployment from lower skilled temporary workers to higher skilled workers.

Figure 3

France and Britain have experienced increases of 2.3%-points and 3%-points in unemployment respectively as of the third quarter of 2010 (compared to the trough point), and the increase has been persistent and continuing during the weak recovery in 2010. The increases in Greece and Portugal have been 4.7%-points and 3.2%-points respectively as of 2010 (the second quarter in Greece and third in Portugal compared to the trough point). Particularly high increases took place in Ireland and Spain: 9.5%-points and 11.4%-points respectively (as of 2010.Q3 compared to the trough point). The unemployment rate is now as high as 20.6% in Spain and 13.9% in Ireland. Unemployment is expected to increase further and display a significant persistence in all countries. ILO (2010) estimates that employment rates will not return back to the pre-crisis levels before 2014.

Firms might want to make use of the recession to rationalize a strategy of increasing productivity and start a new wave of firing or engage in hiring freezes long after the recovery. As firms increase the working hours and delay hiring, this worsens the job chances of the unemployed and the young first time job seekers, and may lead to an increase in discouraged workers who drop out of the labour market. The crisis has already led to an increase in long term unemployment as well as the youth unemployment rate. The share of long term unemployed in total has increased in all countries except Germany in 2009 compared to 2008 (see Figure 4). The increase had started already in 2007 in Spain, Ireland and Britain. The sharpest increases have been in Ireland and Spain with 1.7%-points and 2.3%-points respectively. Youth unemployment has increased in all countries, although in Germany the change is very modest at the moment (see Figure 5). The increase has been 4%-point in France and Britain in 2009 compared to 2008. Again the most dramatic rise took place in Ireland and Spain with the youth unemployment rate reaching to 24.4% and 37.8% respectively in 2009. There are also structural problems of unemployment in sectors like the automotive industry and construction, where the crisis only uncovered the already existing bottlenecks. Recovery of the aggregate economy will not necessarily create jobs in these sectors.

Figures 4-5

It can be argued that the unemployed have been the first victims to pay the costs of the crisis. The effects on the living conditions of the rest of the working population is only starting to be felt through cuts in spending in social services and the consequent rise in the cost of living in countries like Britain, Greece, Ireland, Spain, and Portugal, who have started major austerity programmes in 2010. Wage cuts/freezes in the public sector, which are either planned or already under way, will also hurt the wage earners in the private sector as public sector wages play a signal role for bargaining. The effects of increased unemployment on the bargaining power of workers will also be increasingly felt. However most of these effects on wages will be realised with a lag. Moreover wages are often bargained in the previous year, and there is a time lag until labour market and macroeconomic conditions are reflected in future contracts. In particular, the crisis has come after a period of increasing consumer price inflation in late 2007 and early 2008 following the food and energy price shocks. In several countries real wages had decreased in 2008 (France, Britain) or stagnated (in Germany, Ireland, Portugal) partly due to unexpected inflation (own calculations based on OECD National Accounts data). The wage bargains for 2009 had reflected the persistence of these expectations or the correction of the previous losses (O'Farrell, 2010). As a consequence, in 2009 real wages[3] in the aggregate economy have increased in all countries but Germany, where they were just stagnant (own calculations based on OECD National Accounts). The private sector wages have decreased in Germany and Britain in 2009 (own calculations based on OECD Economic Outlook).

Table 4 shows the latest developments in real wages for 2010. The real wage data for the aggregate economy is available as of the second quarter of 2010 in the OECD National Accounts; however there is no data for private sector wages in the National Accounts. The real wage data in the private sector is calculated based on the forecast for labour compensation in OECD Economic Outlook (June 2010[4]), which however only reports annual data for wages in the private sector. Since the data sources are different and the private sector data is based on forecasts from June 2010, a comparison of the private and public sector wages is not possible.

Table 4

In France in 2010 real wages are stagnating in the private sector, and decreasing slightly in the aggregate economy; thus despite unemployment real wages have been preserved in 2010. In Germany real private sector wages have fallen in 2010, and the aggregate wages as of 2010.Q2 are slightly lower than in their peak (in 2009.Q1). This fall is due to lower hours of work rather than a fall in hourly wages. In Britain in 2010 both total and private sector wages are falling; the fall in aggregate wages as of 2010.Q2 has reached 1.75% compared to the peak (in 2009.Q4). Also in the periphery both aggregate and private sector wages are falling.[5] The cumulative decline in aggregate wages in Greece has been particularly high by 7.1% as of 2010.Q2 compared to 2009.Q3. Sharp and long-lasting increases in unemployment are likely to make the wage losses much stronger in the future.

Data on personal income inequality is released with a time lag; however in 2008 compared to 2007 the ratio of the income share of the top 20% to the bottom 20% has already increased in France, Britain, and Spain. There is a decrease in the other countries. In Britain, data is also available for the income share of the top 10% to the bottom 10%, which has increased from 7.04 in 2007 to 7.28 in 2008. The Gini coefficients in 2008 have also increased in France and Britain compared to 2007 (from 26 to 28 in France and from 33 to 34 in Britain). Although the increases in inequality in this first year of the crisis are modest, it is still striking given the hikes in top income shares on the way to the crisis. In Britain between December 2009 and April 2010, bonus payments increased by 16% in the aggregate economy, and 25% in the financial sector. Although bonus payments still remain below the levels seen in 2006-07 and 2007-08, they are still 50% higher than they were in 2000 across the whole economy. Again in Britain the number of High Net Wealth Individuals (with investable assets

[3] Compensation per employee deflated by private consumption deflator.
[4] The November 2010 detailed data appendix is not available yet.
[5] In Portugal quarterly wage data for the aggregate economy is not available.

above $1 million) has increased by 23.8% in 2009 indicating a partial even if not complete recovery in the wealth of the HNWI.

Finally Figure 2 shows the trends in the adjusted wage share after the crisis. In 2008 and 2009 the share of wages in GDP has increased in a counter-cyclical fashion as a result of decreases in productivity, with the exception of Britain in 2008 where the wage share fell. However, in 2010 in all countries both in the core and the periphery the wage share is expected to decrease according to the estimates of the European Commission Economic and Financial Affairs (AMECO, November 2010 forecasts). The sharpest decreases are taking place in Ireland (2.2%-points) followed by Greece (1.8%-points), Britain (1.2%-points), Portugal (0.7%-points), and Spain (0.6%-points).

It is usual that during a recession, labour's income share slightly increases. However, the long recession of Japan is indicative how wages may develop if the recession persists. In Japan, in the later years of the recession, not only wage freezes but also nominal wage declines took place as deflation persisted (in 1998-99, 2002-04, 2007). The firing of many workers in the first half of the 2000s has been influential in this process. After the recession, the institutionalized wage co-ordination mechanism was almost broken down (Uemura, 2008). As a measure against labour hording in large Japanese firms, the number of non-regular workers increased dramatically; there has also been a shift towards unstable service jobs (Uemura, 2008). All these developments have led to a weakening in the bargaining position of unions and the suppression of nominal wage growth. Overall the wage share decreased by 6.9%-points as of 2007 compared to 1998, and 6.6%-points compared to 1992. The decline in the wage share contributed to a decline in domestic demand, and exports became an important source of demand again in Japan, which also increased the pressure of international competition with the other Asian countries and the increasing number of foreign affiliates of the Japanese multinational firms (Uemura, 2008).

The long recession of Japan led to a strong and continuous increase in unemployment from a level of 2.1% in 1991 to 5.4% in 2002. Despite the recovery since 2003, unemployment as of 2007 was still higher than in 1997. Adverse developments in total unemployment, long term unemployment and youth unemployment took place despite a strong decline in the male as well as female labour force participation rate, which declined from 64.1% in 1992 to 59.6% in 2007. Although the unemployment rate in Japan in its peak point is still lower than in most other advanced countries, it is important to realize that drastic increases in unemployment can radically change the industrial relations and wage bargaining process in a persistent way.

The experience of Japan shows that the episodes of crisis intensify the distributional struggle. The crisis also creates a hysteresis effect that destroys the bargaining power of labour for a long period afterwards. Diwan (2001) defines crises as episodes of distributional fights, which leave "distributional scars". Needless to say, the global dimension of this crisis will make these effects stronger.

5. A transitional program for an alternative Europe

The existing policies in Europe have three fundamental flaws: First the approach of the EU is assuming that the problem is a lack of fiscal discipline and repeats the old faith in strengthening the surveillance of budget deficits; it does not question the reasons behind the deficits; it ignores all the structural problems regarding divergences in productivity, imbalances in current accounts due to the "beggar my neighbour" policies of Germany. The austerity packages throughout the EU are pushing countries into a model of chronically low internal demand based on low wages. The deflationary consequences of wage cuts may turn the problem of debt to insolvency for the private as well as the public sector. In the past in Germany low domestic demand was substituted by high demand for exports. But it is not possible to turn the whole Eurozone into a German model based on wage suppression and austerity, since without the deficits of the periphery the German export market will also stagnate. Particularly for the periphery of Europe contraction in domestic demand means prolonged recession. Second, the mainstream policies are based on the argument that Europe has a sovereign debt crisis, which ignores the fact that public debt would not have increased at the current rates if it were not for the financial crisis, which was prevented by unprecedented bank rescue packages; which in turn increased the budget deficits along with lost tax revenues and increased social spending because of the crisis. Therefore the banking sector, which has generated the crisis, should pay for the effects of the crisis on the public budget –the current policies in Europe aim at exactly the opposite. Third, the underlying reason behind the crisis was unequal distribution of income and wealth. Thus a fundamental reversal of this process requires redistribution in favour of labour.

The existing wage suppression policies hurt all working people alike. The popular discontent in Germany about Greece misses the fact that the German workers' loss of wages, unemployment benefits, and pension rights created part of the problem. Uncovering this fact along with the idea of unequal distribution as the main cause of the crisis is an important step towards building a progressive alliance for an alternative Europe. The attack is international: multinational bank and business lobbies are determining the policies of the governments and EU institutions by using boycotting of government bonds as a threat; thus the opposition also needs to be internationally organized. A pro-labour solution of the public debt crisis in the periphery as well as the core countries like Italy or Britain requires debt default, and a joint struggle can create a stronger counter to this multinational lobby. In that respect a European network of movements could be turned into a lever to bring together peoples' opposition to the budget cuts in different countries. An internationalist solution might generate a more powerful front in the core and the periphery compared to national alternatives. Moreover in the current situation, anti-European and anti-Euro positions are more likely to mobilize nationalist, right-wing currents. Nationalism is certainly a problem among the working class in the core (e.g. the discourse of "PIGS"); however the far right is also quickly mobilizing the discontent in the periphery. Last but not least, the solution to the problems in the periphery of Europe would be tremendously facilitated by fiscal transfers within the EU as opposed to isolated national solutions in small countries, which can easily lead to a persistence of underdevelopment. This position is also consistent with the interests of the working people in the core countries: a low wage periphery as an alternative location for MNEs is a threat to the wages and jobs in the core as well.

Regarding the issue of the Euro and the peripheral countries, there are two positions among Marxist economists: a position, which promotes the exit from the Eurozone as suggested by e.g. Lapavitsas et al. (2010) or de Santos (2011), and a position, that primarily calls for alternative policies for Europe rather than seeing the currency as the core of the debate as suggested by e.g. Husson (in this book), Samary (2011) or the author of this article. I would prefer to push for an alternative Europe and changes in the economic policy framework within which the Euro operates for the reasons mentioned above. Furthermore I do not share the optimism about the competitiveness effects of devaluation, which would follow an exit from the Eurozone. Devaluation means an increase in the costs of imported inputs, and the pass-through effect of import prices in an import dependent country soon erodes the competitiveness effects; furthermore it leads to devastating real income losses for workers. Tactically a better starting point for advocating change is an alternative policy framework for Europe accompanied with debt default rather than a focus on exit from the Eurozone. If an anti-capitalist revolutionary change is initiated in one single country in the periphery and if this wave does not spread to the rest of Europe, and thus the existing EU institutions become an obstacle to debt restructuring and change, exit from the Euro can be the outcome of this process, but the starting point for change should still be a push for an alternative Europe and debt default.

Such a radical transformation of the EU requires a major change in the institutions and policy framework that builds a bridge from the urgent demands of people for decent living standards and a sustainable environment to an alternative anti-capitalist agenda. As the economic crisis intermingled with the ecological crisis demonstrates that capitalism is economically, ecologically, and politically unstable and unsustainable, policies for a change beyond capitalism offer themselves as opposed to reforms to "save capitalism from itself." Such policies build the bridge from today's urgent demands to the alternative of a democratic, participatory socialism.

In the following we discuss alternatives for fiscal policy, monetary policy, incomes and labour market policy, finance, and decision making within such an anti capitalist agenda for Europe.

The most important obstacle today in initiating any progressive economic policy in Europe is the speculation on public debt and the governments' commitment to satisfy the financiers. Public finance has to be unchained via debt default in both the periphery and the core following a process of debt audit. This has to be coordinated at the European level as part of a broader public finance policy to make the responsible pay for the costs of crisis and to reverse the origin of the crisis, i.e. pro-capital redistribution. A debtor-led default is fundamentally different from the current creditor-led debt restructuring plans of the European Elite, which are attached with further austerity policies. Debt default is also not just a question of solvency as in the case of Greece or Ireland; but it is also a question related to the origins of the public debt: thus the question is not only "can we pay the debt?", but "should we pay the debt?" In Britain the newly generated debt because of the crisis that amounts to 33.4% of GDP still raises the question why taxes of working people should be used to pay this debt. The recognition of the need for default is also important given the ecological limits to growth, which poses a constraint to higher growth to ease debt repayment.

Along with debt default, a radical restructuring of public finance involves a highly progressive system of taxes, coordinated at the EU level, on not only income but also wealth, higher corporate tax rates, inheritance tax, and a tax on financial transactions. A progressive income tax mechanism could also introduce a maximum income with the highest marginal tax rate increasing to 90% above a certain income threshold in relation to the median wage. To cite a recent historical case from Britain, between 1974 and 1979 the top income tax rate was 83% on annual incomes above £90,500 in today's prices (£24,000 in 1979). Indeed, with additional taxes of 15% on unearned income such as dividends and interest on investments, the top rate could increase to 98% in 1979! This is a striking comparison to the current top income tax rate of 50% above an annual income of £150,000 in Britain. This would make the banks, the private investment funds, and high wealth individuals pay the costs of the fiscal crisis, and reverse the pro-capital income distribution.

Economic policy and public spending should aim at full employment, ecological sustainability, and equality. This is a feasible but challenging task. First, if the use of environmental resources is to maintain a certain 'sustainable' level, economic growth in advanced capitalist countries, in the long term, has to be zero or low, i.e. equal to the growth rate of 'environmental productivity'.

Second, advanced capitalist countries of Europe need to slow down to create space for development in the Global South as part of a broader strategy of climate justice. This type of zero-growth or even de-growth, however, has nothing to do with the disastrous recession caused by the crisis. This is a managed zero-growth economy that redistributes existing wealth, which should be sufficient to maintain a life with dignity and creativity for all, if resources were used sustainably and in accordance with the needs of the majority. Growth in past decades has not brought jobs, equality, prosperity, or happiness. We can create prosperity and equality without growth. Consumerism and conspicuous consumption would also decrease in a more equal society.

The reconciliation of full employment with zero growth and a low carbon economy requires two policies: creating more labour-intensive jobs, and ecological investments. First, public spending should generate public employment in labour-intensive social services such as education, child care, nursing homes, health, community and social services. The need for social services is not met under the present circumstances, where they are provided either at very low wages (to ensure an adequate profit) or as a luxury service for the upper classes or via invisible unpaid female labour within the gendered division of labour in the private sphere. To avoid this deficit they can be provided by the state or by non-profit/community organizations. The gender aspect of public employment programmes should also be carefully designed in order not only to avoid disadvantages for women but also to increase women's employment share.

Second, for the purpose of ecological sustainability, there is need for a shift in the composition of aggregate demand towards long-term green investments; this cannot be achieved without new strategic tasks for active public investment. Public investment in ecological maintenance and repair, renewable energy, public transport, insulation of the existing housing stock and building of zero-energy houses can create jobs as well as a low carbon economy.

To maintain full employment without growth, a substantial shortening of working time in parallel with the historical growth in productivity is also required. Reduction in weekly working hours should take place without loss of wages, which means an increase in hourly wages. Again this is not unrealistic. Compared to the 19th century, we are all working part-time today. But the shortening of working hours has slowed down since the 1980s, with the notable exception of France. This is also the way to break the illusion among working people of the need for growth and to make a zero-growth economy socially desirable by guaranteeing work with dignity and an equitable distribution of income. The minimum wage should also be adjusted upwards to a living wage level, and a basic income for all residents should be introduced.

Regarding employment in the private sector, it is important to prevent firms from making use of the crisis to implement their long-term downsizing strategies. The alternative is legal measures to ban firing during the crisis: if the firing ban leads to bankruptcy in certain firms, these firms can be re-appropriated and revitalized under workers' control, supported by public credits. Widespread examples of that were seen in Argentina after the crisis in shut-down companies.

In cases of sectors that are under the threat of structural problems and mass layoffs, like the auto industry, nationalization of the firms and restructuring of these public firms should be considered, e.g. in the auto industry a shift of focus towards the production of public transport vehicles, and a gradual transfer of labour towards new sectors.

This programme requires a public banking sector. Financial regulation is important but not enough. Finance is a crucial sector which cannot be left to the short-termism of the private profit motive. This sector has already been de facto nationalized, but without any voice for society and with a commitment to privatization as soon as possible. Yet the challenge is the finance of socially desirable large new investments, e.g. in the energy sector. Large private banks exploit their advantage of being "too big to fail". Instead, what needs to be done is to nationalize the banking sector with the participation of the workers and other community representatives in decision making and transparency of the accounts.

On the international front, speculative financial flows should be prevented via capital controls and a stable world monetary system based on fixed exchange rates with the possibility of managed adjustments. The nationalization of banks is a natural complement to debt default. This can prepare the ground for a policy of debt restructuring for working people by linking their debt payments to national banks to a reasonable share of their income.

The implications of these policies for an alternative European policy framework are to completely abandon the Stability and Growth Pact on the fiscal policy front and to align monetary policy with fiscal policy targets. The ECB should be turned into a real central bank with the ability to lend to member states. Higher public spending financed by monetary expansion does not pose a threat of inflation today given the recession, low demand, and deflationary environment. However it is important that monetary expansion serves the priorities of development, sustainability, full employment, and equality.

On the incomes and labour market policy level, there is need for a fundamental correction of the wages in both the periphery and the core of Europe to reflect the productivity gains of the past three decades fully. To facilitate convergence a minimum wage should be coordinated at the EU level. Higher productivity growth in poorer countries of the EU will help to create some convergence in wages, but regional convergence should be supported by fiscal transfers and public investments to boost productivity in poorer regions. Furthermore a European unemployment benefit system should be developed to redistribute from low to high unemployment regions. This requires a significant EU budget financed by EU level progressive taxes.

Last but not least, the crisis calls for a major shift in decision making to facilitate economy-wide coordination of important decisions. This requires public ownership and the participation and control by workers in the firms, of consumers, and regional representatives in other critical sectors such as housing, energy, infrastructure, the pension system, education, and health. Such a transformation will build the bridge to a democratic, participatory, feminist ecosocialism.

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Comment [A1]: Make sure all of these are in the same size font.

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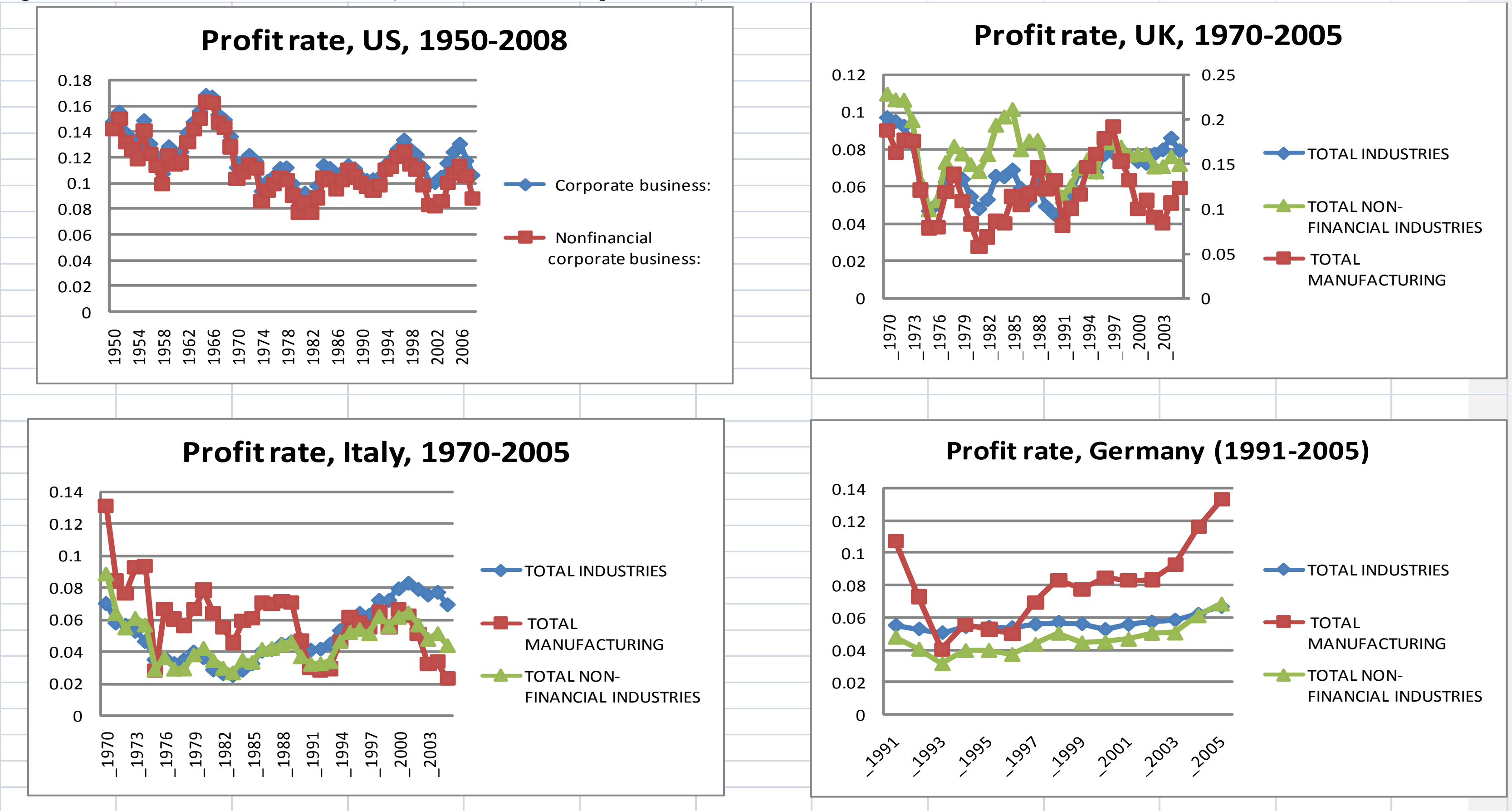
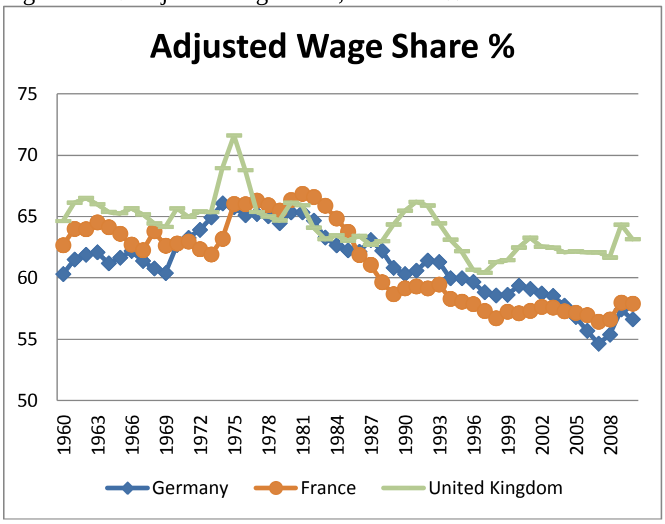
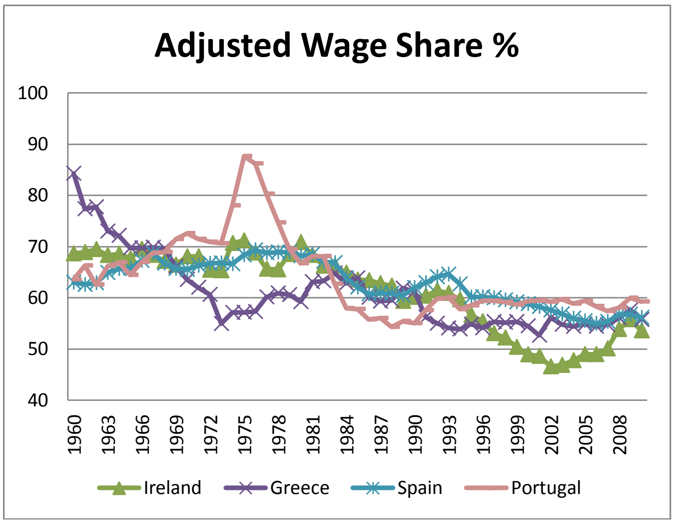
Figure 1: Profit rate in different sectors (Net returns on net capital stock)



Source: Bureau of Economic Affairs for US, and EUKLEMS for Europe

Figure 2a-b: Adjusted wage share, Selected Western EU MS*





*Compensation per employee as percentage of GDP at factor cost per person employed
Source: AMECO, 2010 (Economic and Financial affairs, Annual Macroeconomic Indicators online database, updated in November 2010)

Table 1. Average annual % change (compound) in real wages and productivity, 1991-2007

	France	Germany	United Kingdom	Greece	Ireland	Portugal	Spain
Real wages	1.09	0.48	1.91	1.56	1.98	2.00	0.19
Productivity	1.23	1.35	2.08	1.97	2.88	1.70	0.60

Source: OECD National Accounts, 2010, online database

Real wages=Labour compensation/number of employees/private consumption price deflator

Productivity=GDP/number of employed persons

Table 2a: Budget Deficit/GDP (%)

	2006	2007	2008	2009	2010
Germany	-1.64	0.19	0.04	-3.30	-4.95
France	-2.32	-2.73	-3.34	-7.58	-7.98
United Kingdom	-2.73	-2.79	-4.89	-11.41	-11.84
Ireland	2.96	0.14	-7.26	-14.28	-32.30
Greece	-3.84	-5.37	-7.67	-13.52	-9.37
Spain	2.02	1.91	-4.06	-11.19	-9.80
Portugal	-3.94	-2.65	-2.90	-9.43	-8.53

Table 2b: Public debt/GDP (%) and change in debt in 2010-2007 (%-points)

	2006	2007	2008	2009	2010	2010-2007
Germany	67.6	64.9	66.3	73.4	75.7	10.8
France	63.7	63.8	67.5	78.1	83.0	19.2
United Kingdom	43.4	44.5	52.1	68.2	77.8	33.4
Ireland	24.8	25.0	44.3	65.5	97.4	72.4
Greece	106.1	105.0	110.3	126.8	140.2	35.2
Spain	39.6	36.1	39.8	53.2	64.4	28.3
Portugal	63.9	62.7	65.3	76.1	82.8	20.0

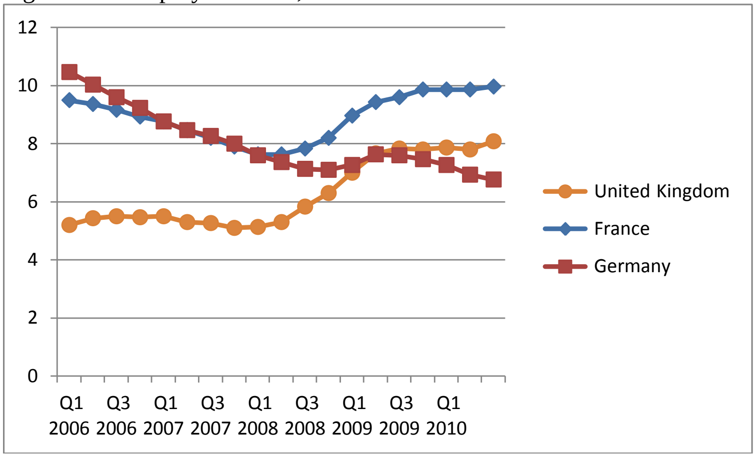
Source: Ameco

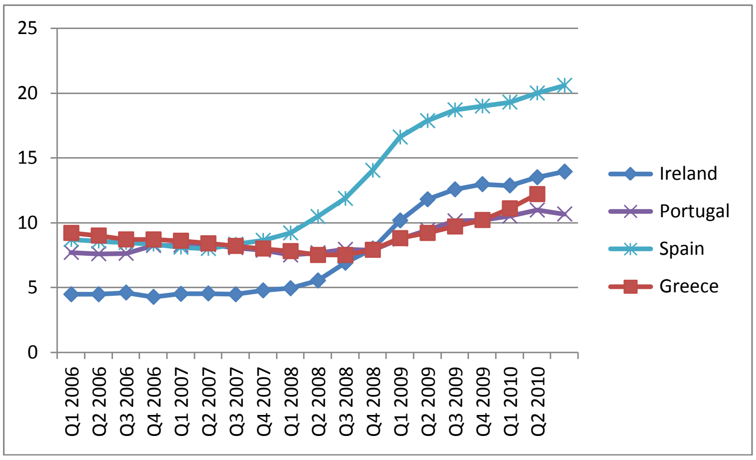
Table 3. % Cumulative Change in GDP, Employment, and Hours Worked (seasonally adjusted)

	France	Germany	UK	Greece	Ireland	Portugal	Spain
	GDP						
peak/trough	-3.88	-6.62	-6.39	-5.66	-14.26	-3.84	-4.89
10.2/peak	-2.16	-2.70	-4.55	-5.66	-11.98	-1.82	-4.58
peak/trough dates	09.1/08.1	09.1/08.1	09.3/08.1	10.2/08.3	09.4/07.4	09.1/08.1	09.4/08.1
length	4	4	6	7	8	4	7
	Employment, total						
peak/trough	-1.73	-0.29	-3.19	-3.55	-12.53	-4.16	-9.64
10.2/peak	-1.55	-0.08	-2.54	-3.55	-12.53	-4.16	-9.64
peak/trough dates	09.4/08.2	09.4/08.4	10.1/08.2	10.2/07.4	10.1/07.4	10.2/08.2	10.2/08.1
length	6	4	7	10	9	8	9
	Hours worked, total						
peak/trough	-2.12	-3.39			-13.90	-4.03	-8.68
10.2/peak	-1.81	-1.42			-11.45	-3.27	-8.00
peak/trough dates	10.1/08.1	09.2/08.2			09.3/07.3	09.3/07.4	10.1/08.2
length	8	4			8	7	7

Source: OECD National Accounts, 2010

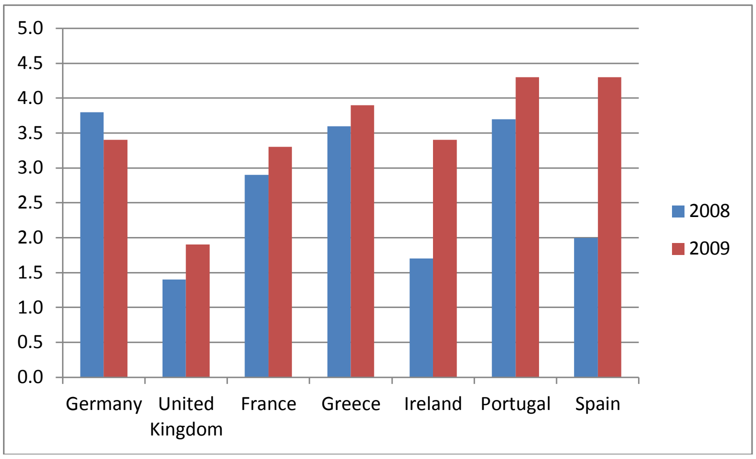
Figure 3: Unemployment rate, %





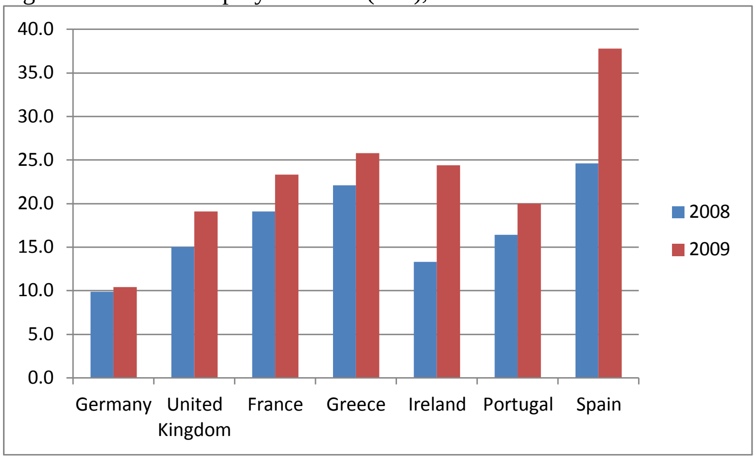
Source: OECD Main Economic Indicators, 2010

Figure 4: The share of long term unemployed, %



Source: Eurostat, 2010

Figure 5: Youth unemployment rate (<25), %



Source: Eurostat, 2010

Table 4: Cumulative % change in real wages (Compensation per employee deflated by the private consuption deflator)								
		France	Germany	UK	Greece	Ireland	Portugal	Spain
Total economy*	2010.2 / peak**	-	-0.13	-1.75	-7.10	-1.14		-2.02
Total economy***	2010 2 quarters average / 2009 average	0.94	0.28	-0.24	-6.06	-0.50		-1.01
The private sector***	2010	0.27	-1.38	-0.83	-3.28	-2.47	-0.48	-0.34
*OECD National Accounts, quarterly, November 2010. The data for Ireland ends in 2010.1								
**Peak wage was in 2009.1 in Germany; 2009.3 in Greece and Ireland; 2009.4 in Spain and the UK.								
***annual data, OECD Economic Outlook, November 2010.								